

Business, Transportation, and Housing

The Business, Transportation, and Housing Agency (BTH) oversees programs that promote the state’s business and economic climate, transportation infrastructure, affordable housing, and patients’ rights. The Agency also promotes public safety through the Department of Motor Vehicles, the California Highway Patrol and the Department of Alcoholic Beverage Control. Funding for all programs exceeds \$19.9 billion, which is largely derived from special fund revenues, federal funds, and the proceeds of bonds.

Proposed Workload Budget

The proposed Budget was constructed first by computing the workload budget funding level. From the workload budget, adjustments were made to reflect specific policy adjustments and reductions, including budget-balancing reductions. With these adjustments, the Governor’s Budget provides close to \$20 billion and nearly 45,000 positions to fund California’s Business, Transportation and Housing programs. Change Table BTH-01 illustrates the major spending changes proposed in the Governor’s Budget.

Business, Transportation, and Housing

Change Table BTH-01

| | 2007-08 | | | 2008-09 | | |
|--|--------------|--------------|-----------|--------------|--------------|-----------|
| | General Fund | & \$ Funds | Positions | General Fund | & \$ Funds | Positions |
| 2007 Budget Act | \$1,567,294 | \$18,057,803 | 44,224.0 | \$1,567,294 | \$11,678,895 | 44,224.0 |
| Workload Adjustments | | | | | | |
| Change in Expenditures to Reflect Updated Prop 42 Sales Tax Revenue Forecast | B | C | C | 4,320 | C | C |
| General Obligation Debt Service - Housing | C | C | C | 108,872 | C | C |
| General Obligation Debt Service - Transportation | 2,535 | B | C | 2,606 | 14,711 | C |
| Proposition 1C Housing Bond Funding Plan | C | 165,000 | C | C | B | C |
| Savings for Anticipated Vacant CHP Officer Positions | C | C | C | C | B | C |
| Statutory and revenue driven increases in State Transit Assistance funding | C | B | C | C | 427,112 | C |
| Employee Compensation/Retirement | 123 | 226,260 | C | 152 | 248,999 | C |
| Restore Zero-Based Transportation Capital Outlay and Re-estimate of Expenditures | C | 37,255 | C | C | 5,676,355 | C |
| Expiring Programs or Positions | C | C | C | C | B | B |
| One-Time Cost Reductions | C | C | C | B | B | C |
| Full-Year Cost of New Programs | C | C | C | C | 26,650 | 101.2 |
| Other Workload Adjustments | B | 130,412 | B | 142 | 319,745 | 174.8 |
| Infrastructure Adjustment | C | B | C | C | 14,297 | C |
| Totals, Workload Adjustments | B | \$535,762 | B | \$115,064 | \$6,428,386 | 269.4 |
| Policy Adjustments | | | | | | |
| Housing Urban-Suburban-and-Rural Parks Program | C | C | C | C | 30,583 | 1.9 |
| New Clean Renewable Energy Bonds (CREB) to Fund Photovoltaic Installation | C | C | C | C | 20,000 | C |
| Statewide CHP Officer Augmentation | C | C | C | C | 21,592 | 112.3 |
| Other Policy Adjustments | C | C | C | 169 | 17,707 | 13.2 |
| Totals, Policy Adjustments | \$0 | \$0 | C | \$169 | \$89,882 | 127.4 |
| Total Adjustments | B | \$535,762 | B | \$115,233 | \$6,518,268 | 396.8 |
| Budget Prior to Reductions | \$1,526,379 | \$18,593,565 | 44,208.8 | \$1,682,527 | \$18,197,163 | 44,620.8 |
| Budget-Balancing Reductions^{1/} | B | \$0 | C | B | B | B |
| Governor's Budget | \$1,526,179 | \$18,593,565 | 44,208.8 | \$1,680,499 | \$18,197,063 | 44,616.7 |

^{1/} These dollars and PYs are included in the General Government agency; therefore, not included in each agency's totals in the applicable Summary Schedules.

* Dollars in Thousands

The major workload adjustments required by law for 2008-09 include the following:

- Proposition 42 is fully funded at \$1.5 billion, including \$83 million for loan repayment pursuant to Proposition 1A of 2006.
- Caltrans will receive an additional \$460.3 million in federal funding in 2007-08 from both reimbursement for emergency funds expended in past years and from federal funding that other states were unable to use. These funds will be used to complete additional pavement rehabilitation work.
- The change table for the BTH reflects updated 2008-09 local assistance and capital outlay expenditures as well as carryover from past year appropriations.
- The budget reflects the passage of Chapter 733, Statutes of 2007 (SB 717), which shifted \$74 million annually in Proposition 42 revenues from the state to local transit agencies funded through the State Transit Assistance Program.
- The budget includes an additional \$18.5 million for the third year of a five-year CHPERS Enhanced Radio System project to replace and upgrade CHP's system.
- The budget also includes an additional \$3.2 million to fund workload increases associated with the implementation and administration of Proposition 1B bond funds.

Workload Budget

- A workload budget reflects what a given program will cost next year under existing law and policy.
- Government Code Section 13308.05 defines workload budget as the budget year cost of currently authorized services, adjusted for changes in enrollment, caseload, or population, and other factors including inflation, one-time expenditures, federal and court-ordered mandates.

Proposed Budget-Balancing Reductions

- Budget-balancing reductions for BTH total \$0.2 million in 2007-08 and \$2.03 million and 4.1 personnel years in 2008-09.
- Programs exempted from reductions include Proposition 42 transportation transfers and general obligation debt service.

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The major reductions are described below:

- \$481,000 in 2008-09 for the Small Business Loan Guarantee Program. This reduction will result in fewer loan guarantees available to small businesses in California.
- \$343,000 in 2008-09 for the Office of Migrant Services. This reduction will require four centers to be closed, resulting in fewer housing opportunities for migrant agricultural workers in California.
- \$401,000 in 2008-09 for the Emergency Shelter Program. This reduction in assistance to local homeless emergency shelters would result in approximately 1,900 fewer shelter spaces annually.

Other Special Session Issues

Trailer bill language is being proposed to postpone until September 2008 the monthly transfer of excise tax revenues from the Highway Users Tax Account to cities and counties for local streets and roads maintenance for the months of April through August of 2008. This will meet General Fund cash needs by providing additional borrowable cash.

Program Enhancements and Other Budget Adjustments

Major budget changes for BTH are described under the general headings of Transportation, Highway Safety, and Business and Housing.

Proposition A

Proposition 1A of 2006 amended the Constitution to provide that transfers of sales taxes on gasoline under Proposition 42 may be suspended, but if that is done, the suspended amount must be repaid within three years. Thus, the state cannot achieve budgetary savings from Proposition 42 and therefore no budget balancing reduction to Proposition 42 is proposed. Proposition 1A also provides that an equal share of any remaining debt related to the suspension of the Proposition 42 transfer in 2003-04 and 2004-05 be repaid in every year starting in 2006-07. The Budget Act of 2007 provided a total of \$1.415 billion from the General Fund to repay the majority of these suspensions. The Governor's Budget reflects \$82.7 million being repaid in every subsequent year from "spillover" sales tax revenues deposited into the Transportation Debt Service Fund.

Transportation Programs

State Transportation Improvement Program (STIP)

The STIP Fund Estimate is an approximation of all resources reasonably expected to be available for the STIP and other transportation priorities over a five-year period. The 2006 STIP Fund Estimate and STIP Augmentation cover 2006-07 through 2010-11, totaling \$8.3 billion. The Budget reflects expenditures of \$2.1 billion in 2007-08 and \$1.5 billion in 2008-09 for STIP projects, a decrease of 29 percent. The reduction is due primarily to an unusually high one-time increase in capital funding for public transportation projects in 2007-08 and statutory changes in SB 79 and SB 717 that specify that a significantly larger share of the Public Transportation Account revenues now go to local transit agencies to fund operating costs. The reduction also reflects the temporary increase in capital expenditures in 2006-07 and 2007-08 associated with the \$1.4 billion Proposition 42 loan repayment in 2006-07.

State Highway Operation and Protection Program (SHOPP)

The 2006 STIP Fund Estimate reflects \$7.9 billion in resources for SHOPP projects from 2006-07 through 2009-10. The Governor's Budget reflects expenditures of \$2 billion in 2007-08 and \$1.6 billion in 2008-09, a decrease of 20 percent due to a one-time increase of \$460 million in 2007-08 in reimbursements for past emergency expenditures and the redistribution of federal funds that other states were unable to use.

Local Assistance Programs

Caltrans provides state and federal transportation funds to local agencies for local capital improvement projects on the state highway system, mass transit capital improvement projects, and local bridge improvement projects. The Governor's Budget proposes \$3 billion for local transportation in 2008-09, including \$156 million for local mass transportation projects.

Local Mass Transportation

The Governor's Budget includes funding for the following transit, rail, and planning programs, as reflected in Figure BTH-02. This reflects a continuation of the funding allocation priorities set in Chapter 181 (SB 88), Statutes of 2007.

STIP

The STIP is the state's transportation enhancement program. It includes the addition of highway lane miles as well as expansion of intercity rail projects. Statutorily, the state determines projects for 25 percent of STIP funds, while regional transportation planning agencies program the remaining 75 percent. STIP is funded primarily from Proposition 42 resources in the Transportation Investment Fund, though some resources are provided from Proposition 1B bonds, federal funds, the Public Transportation Account, and Proposition 42-related loan repayments.

Figure BTH-02
Public Transportation
 (Dollars in Millions)

| Public Transportation Account (PTA) Funding | 2007-08 | | 2008-09 | |
|--|----------------|--------------|----------------|--------------|
| Planning | \$ | 23 | \$ | 23 |
| Intercity Rail Operations | \$ | 112 | \$ | 106 |
| Rail Projects | \$ | 36 | \$ | - |
| Local Transit Grants | \$ | 304 | \$ | 743 |
| Local Transit Projects | \$ | 566 | \$ | 53 |
| Traffic Congestion Relief Program Funding | | | | |
| Local Mass Transportation Projects | \$ | 66 | \$ | 59 |
| State Rail Projects | \$ | 12 | \$ | 5 |
| Proposition 1B | | | | |
| Transit | \$ | 600 | \$ | 350 |
| Rail | \$ | 188 | \$ | 73 |
| Transit Security | \$ | 101 | \$ | 101 |
| Total | \$ | 2,008 | \$ | 1,513 |

- \$141 million to continue funding transportation services administered by Regional Centers.
- \$1.1 billion for local transit agencies for operating and capital purposes through the State Transit Assistance Program. This amount includes \$350 million in Proposition 1B funds for capital transit projects and \$742.9 million from sales tax revenues, including a \$74 million increase in Proposition 42 revenues resulting from passage of SB 717. Operating funds from sales tax revenues are growing from \$304 million in 2007-08 to \$743 million in 2008-09.

SHOPP

The SHOPP includes a range of rehabilitation projects that are intended to reduce hazardous road conditions, preserve bridges and roadways, enhance and protect roadsides, and improve operation of the state highway system. The SHOPP is funded primarily from the State Highway Account from the state’s two-thirds share of fuel excise tax revenues, weight fees, and federal funds.

State Operations

- The Governor’s Budget proposes \$4.2 billion in state operations funding to support Caltrans in 2008-09, including \$2.9 billion from the State Highway Account, \$362 million in federal funds, and \$990 million from other special funds, a \$14 million increase from currently estimated 2007-08 expenditures.
- A new \$20 million bond program is being proposed for Caltrans for the sale of Clean Renewable Energy Bonds (CREBs). The resources will be utilized to fund up to 70 photovoltaic (i.e., solar energy) projects at maintenance facilities, equipment shops, transportation management centers, materials labs, and office buildings.

Maintenance

The Budget includes \$1.2 billion and 5,922 positions to maintain approximately 15,000 centerline miles of highway, over 230,000 right-of-way acres, and over 12,000 state highway bridges and to inspect over 12,000 local bridges. This is an increase of \$21 million over 2007-08.

State Rail Operations

The Budget includes \$106 million and 178 positions to manage and coordinate intercity rail passenger services that provide commuters with a range of transportation options, help improve the state's air quality, and reduce highway congestion and fuel consumption. Caltrans manages two state-supported routes operated by Amtrak, the San Joaquin and Pacific Surfliner, and financially supports the Capitol Corridor.

Capital Outlay Support

Funding for Caltrans capital outlay projects is zero-based each year and submitted as part of the May Revision once better workload estimates become available and actual project allocations are known. Because the capital outlay support workload is much less for public transportation projects, and because a larger proportion of STIP projects will be public transportation projects, it is anticipated that growth in capital outlay support workload will not be as strong as previously anticipated because more projects are likely to be delivered by local agencies than previously predicted.

High-Speed Rail Authority

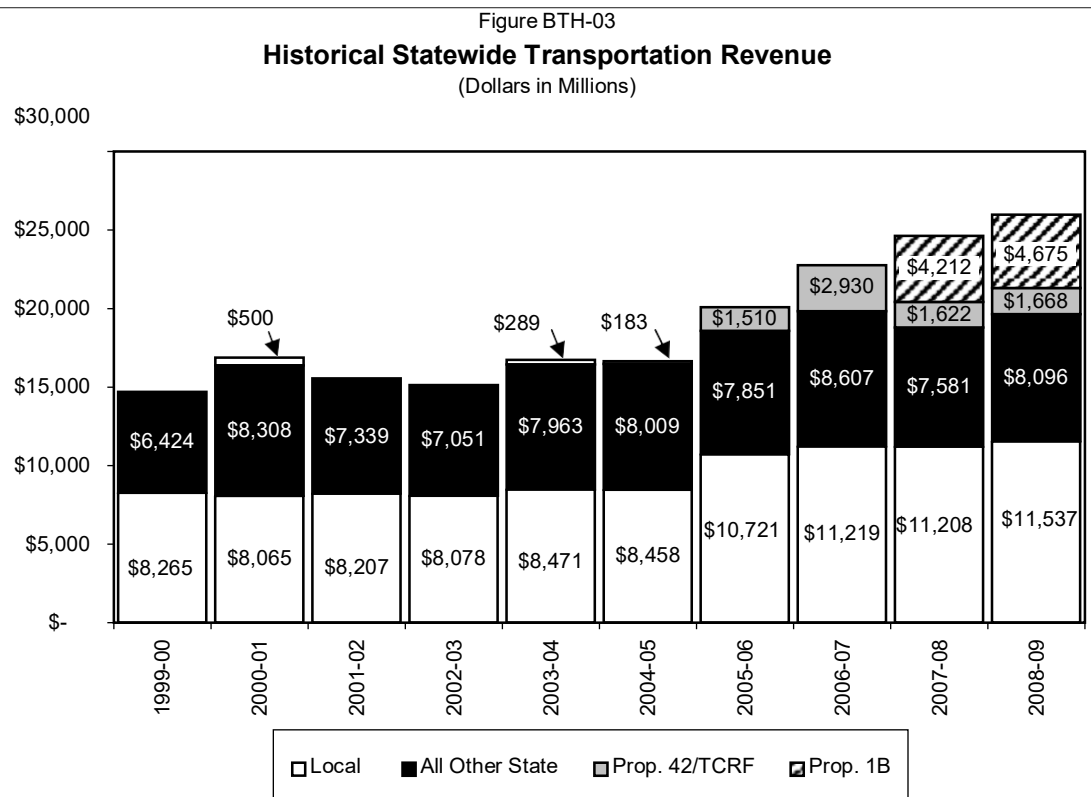
The High-Speed Rail Authority is charged with planning the development and implementation of an intercity high-speed rail service. The Budget proposes to continue the current level of funding of \$1.2 million for basic staff support.

Transportation Revenue

Figure BTH-03 displays total statewide transportation resources, which are estimated to be approximately \$21.2 billion in 2008-09, an increase of \$289 million over 2007-08. Local gas tax distributions for local streets and roads are shown in the General Government section of the Budget in Item 9350 (Shared Revenues).

Fuel Taxes

Transportation programs in California are funded largely from fuel taxes, including federal funds derived from the federal excise tax collected by the Internal Revenue System. State fuel taxes include an excise tax on gasoline and diesel fuel, sales tax on gasoline and



diesel fuel, truck weight fees and motor vehicle fees. These revenues total \$8.5 billion in 2008-09 and are deposited in special funds as follows:

- State Highway Account — \$1.049 billion
- Highway Users Tax Account — \$3.569 billion
- Public Transportation Account—\$0.888 billion
- Mass Transportation Account — \$0.455 billion
- Motor Vehicle Account—\$2.5 billion

Proposition B Bonds

The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bonds Act of 2006 authorizes \$19.925 billion over the next 10 years to fund existing and new statewide transportation-related infrastructure programs and projects. Most Proposition 1B programs are administered by either the California Transportation Commission or Caltrans, with the exception of Local Streets and Roads and Local Transit (State Controller’s Office),

Trade Infrastructure Air Quality and School Bus Retrofit (Air Resources Board), Port Security (Office of Emergency Services), and Transit Security (Office of Emergency Services and Homeland Security).

Funds for these programs will be disbursed as construction and other project activities occur, which will help manage the impact on the state's debt limit. The Governor's Budget proposes to appropriate \$4.7 billion to continue implementation of the transportation programs.

Proposition 42

The Governor's Budget proposes to fully fund the \$1.485 billion Proposition 42 transfer and the Proposition 1A loan repayment for fiscal 2008-09. Funding is allocated under statutory formula as follows: \$82.7 million to the Traffic Congestion Relief Fund (TCRF), \$594.2 million to the State Transportation Improvement Program (STIP), \$297.1 million to the Public Transportation Account, and \$594.2 million to cities and counties for local streets and roads maintenance.

Tribal Gaming Funds

- The Budget assumes the tribal compact cash will continue to be spent as it comes in annually until the date that the bonds for the original five gaming compacts can be sold is known. \$100 million is assumed to be spent in both 2007-08 and 2008-09 and will be deposited in the State Highway Account and the Public Transportation Account consistent with current law.

Proposition 42 B:

\$4.7 billion in bond allocations for:

\$1,547 million—Corridor Mobility

\$350 million – Local Transit Program

\$1,186 million – State Transportation Improvement Program

\$500 million – Trade Corridors

\$200 million – State/Local Partnerships

\$216 million – State Highway Operations and Protection Program

\$65 million – Grade Separation Program

\$108 million – Highway 99

\$21 million – Local Seismic

\$73 million – Intercity Rail

\$0.4 million – School Bus Retrofit

\$250 million – Air Quality

\$101 million – Transit Security

\$58 million – Port Security

Motor Vehicle Account

Vehicle registration fees and driver's license fees are deposited into the Motor Vehicle Account to be used for the administration and enforcement of laws regulating the use, operation, and registration of vehicles on California public streets and highways, including the enforcement of traffic and vehicle laws by state agencies and the mitigation of the negative environmental effects of motor vehicles. The California Highway Patrol, Department of Motor Vehicles, and Air Resources Board receive 98 percent of the funding.

Motor Vehicle Account

Current and projected program costs have increased beyond current revenue levels. Absent a correction, the Account would become insolvent in 2008-09.

The Budget proposes an increase of \$11 per vehicle to the fee that provides support for the California Highway Patrol, as well as imposing penalties on those who are late in paying this fee, in line with penalties required under current law for the base registration fee. This will generate approximately \$385 million in revenue in 2008-09 year for partial year implementation, increasing to \$522 million for full-year implementation in 2009-10. These revenues will support continued public safety initiatives, such as the California Highway Patrol staffing and radio system upgrade, while maintaining a prudent reserve.

California Highway Patrol

The Department of California Highway Patrol (CHP) patrols over 105,000 miles of freeways, state highways, and county roads, with a primary focus in traffic law

enforcement, investigation of vehicle collisions, homeland security, Capitol and dignitary protection, air operations and support, and services to motorists. The Budget proposes \$1.9 billion and 11,196 positions. This is an increase of \$35.7 million and 227.1 positions above the 2007-08 Budget.

Patrol Staffing Expansion

The Budget proposes funding to add 120 uniformed positions and 44 support positions (\$21.6 million Motor Vehicle Account) to address workload growth associated with population growth, including the increased number of licensed drivers, and development of new communities and the resulting increased traffic congestion and number of collisions.

The CHP projects this statewide staffing augmentation will enable an increase in proactive patrol hours by approximately 68,000 hours when positions are filled. Proactive road patrol provides a significant deterrent to motorists who violate the law and enhances

security through increased officer presence. Increased staffing also reduces response times to major collisions and persons needing assistance on state highways. The Budget also reflects limited-term savings reflecting the time it will take to graduate enough officers from the CHP Academy to fill all 6,973 positions by 2012-13.

Department of Motor Vehicles

The Department of Motor Vehicles (DMV) promotes driver safety by licensing drivers, and protects consumers and ownership security by issuing vehicle titles and regulating vehicle sales. The Budget proposes \$959.7 million, all from non-General Fund sources, and 8,250 positions. This represents a decrease of \$73.5 million and 39.4 positions from the 2007-08 Budget.

Real ID Act

The federal REAL ID Act requires states to establish minimum standards for the creation and issuance of driver's license and identification (DL/ID) cards that will be acceptable for official deferral purposes, such as commercial air travel and entering federal buildings. These requirements are currently required to take effect May 11, 2008. According to the U.S. Department of Homeland Security (DHS), the final regulations implementing the Act are expected to be issued by February 2008. At that time, the California DMV will be in a better position to quantify resource needs for the budget year and submit a spring budget request.

The preliminary REAL ID regulations, released in March 2007, mandated states to fully implement the Act within five years, or by 2013. In response, the Administration raised concerns over federal funding for this effort and the time requirements for certifying the state's 24 million DL/ID cardholders. As a result, states were informed that the final regulations will provide for a substantially longer implementation period. This extension will help reduce the significant costs associated with the requirement that residents appear in-person at DMV offices to establish identity and obtain REAL-ID compliant cards. The DMV also is scheduled to award a new DL/ID card contract in 2008-09 that will provide for best practices in card issuance and security features, and also enable California to satisfy the REAL ID requirements.

Office Consolidations

The Budget includes \$4.5 million to establish a Central California Telephone Service Center and Driver Safety Office in Bakersfield, which will allow DMV to reuse vacated space for field office space, and to establish a Consolidated Commercial Driver License

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Center in Central California to alleviate overcrowding and unsafe testing areas in several field offices.

Business and Housing

The Business, Transportation, and Housing Agency includes the departments of Real Estate, Real Estate Appraisers, Managed Health Care, Financial Institutions, Corporations, and Alcoholic Beverage Control, which ensure efficient and fair markets for the real estate industry, health care plans, alcoholic beverage industry, and certain financial businesses. The Department of Housing and Community Development and the California Housing Finance Agency help communities expand the availability of affordable housing. Agency programs assist the state's infrastructure, small business finance, and economic development by encouraging and promoting economic activity and investment within the state.

Department of Housing and Community Development

The Department of Housing and Community Development (HCD) administers housing finance, rehabilitation, and community development programs, oversees the state's housing planning and code-setting processes, and regulates manufactured housing and mobile home parks. The Budget proposes \$1.1 billion (\$15.9 million General Fund and \$1.0 billion other funds) and 626 positions. This represents a decrease of \$246.5 million and an increase of 48.8 positions from the revised 2007-08 Budget.

In 2008-09, expenditures from Proposition 46 bond funds are estimated to be \$36.8 million, which will fully expend the bond.

Proposition 1C expenditures are expected to total \$771 million, a decrease of \$202 million from 2007-08.

Proposition 1C:

\$771 million in bond allocations for:

\$188 million—Affordable Homeownership

\$194 million—Multifamily Rental Housing

\$40 million—Joe Serna Jr. Farmworker Housing

\$24 million—Emergency Housing Assistance

\$200 million—Infill Incentives Grant program

\$95 million—Transit-Oriented Development

\$30 million—Housing Urban-Suburban-and-Rural Parks

Proposition 1C Implementation

Proposition 1C, the Housing and Emergency Shelter Fund Act of 2006, was approved in November 2006 to promote housing programs in California through the investment of \$2.85 billion in General Obligation Bonds in existing housing programs, as well as to fund investment in innovative housing programs, housing infill construction, and housing-related parks.